

Department of Personnel Administration (DPA)
Request for Proposal (RFP) 700-07-02
Investment Products

Questions and Answers

1. How frequent (daily/weekly/monthly/quarterly/semi-annual basis) are the participants allowed to change their current allocation(s) to the different investment choices?

Participants can initiate transactions on a daily basis.

2. What timeframe after the close of the market (same day or next day) would DPA require their manager(s) to have the valuations posted and available for participants?

See Attachment 2, Exhibit A, for scope of work requirements by vehicle type.

3. If the firm does not currently manage money for any defined contribution plans, but has a long-standing record of managing money for large defined benefit plans, would this disqualify the firm from the proposal and evaluation process?

Refer to Section II of the RFP for minimum qualification for proposers.

4. How frequent (daily/weekly/monthly/quarterly/semi-annual basis) are the participants allowed to elect additions or withdrawals to or from their existing account?

See answer to question 1.

5. Our firm would like to propose a stable value strategy that invests in several group annuity accounts managed by our firm and made up of commingled funds. The group annuity accounts are maintained by our parent company. Would DPA be willing and able to invest in this type of structure (vehicle)?

This is acceptable assuming that the underlying investments in the group annuity contracts satisfy the minimum qualifications.

6. Regarding Section II.B.1.e.3., what will be the policy guidelines for the allowable duration range of this mandate?

The proposed strategy must have an average duration that is not less than two years and not greater than five years. For separate account vehicles, DPA will work with the awarded firm to determine the investment guidelines.

7. Section I.A.3. of the RFP states that the strategy should invest in a portfolio of stocks that exhibit the characteristics representative of a growth investment style, including price/book ratios greater than that of the Russell Mid Cap Index. Is it *suggested* that the P/E & P/B be higher than the Russell Mid Cap Index or is this *mandated* that it remain higher?

This is not a mandate. Refer to Section II of the RFP for minimum qualifications.

8. We would anticipate that our firm would select and negotiate wrap contracts for the proposed stable value mandate and also manage the fixed income portfolios underlying these contracts. Our firm does not select or make recommendations to select external fixed income managers for its clients. Is this type of arrangement acceptable? Please clarify the circumstances under which you might request that the stable value manager use a “non-proprietary fixed income portfolio” as noted Section II.B.1.i., of the RFP.

DPA's goal is to retain an investment manager who will work to develop a customized stable value fund and will be open to review opportunities that will enhance return and/or reduce manager specific risk. Upon award, DPA will work with the selected manager to determine the exact structure of the stable value fund.

9. What are the current fees for the existing stable value portfolio?

Fees are 0.11 annually, which includes 0.01% for expense reimbursement.

10. Section II.B.3.e. states, “Investment strategy proposed must have a strong adherence to a mid cap growth equity mandate as evidenced by the following:

(1) Invest primarily (at least 80% per internal investment guidelines) in mid cap growth equity stocks (between \$1 billion and \$10 billion) with a total average weighted market capitalization in-line with the Russell Mid Cap Index as of March 31, 2007.”

Is the 80% a guideline or mandate? Is the 80% at time of purchase? What happens if a manager falls below the 80%? If it is a mandate, is this an intentional change to the requirement since today the fund is slightly below 80%? Also, will the S&P MidCap 400 Index also be used as a comparable index?

Firms submitting proposals must have their specific Mid Cap Growth Equity investment strategy satisfy the minimum qualification as specified in Section II. B. 3. The 80% requirement is at the time of purchase. The minimum qualifications will not necessarily be the requirements for the awarded mandate. The S&P MidCap 400 will not be used as a comparable index.

11. Regarding total average weighted market capitalization (Section II.B.3.e.), we typically use the Investment Weighted Median Market Capitalization, and the Weighted Average Market Cap for the fund is currently below the Russell Mid Cap Index. What is considered “in line” with the Russell Mid Cap Index?

+/- 20% variance is considered in-line.

12. Section II.B.3.e., and in one other instance, the reference is made to the Russell Mid Cap Index (as opposed to the Russell Mid Cap Growth Index). Should it read Russell Mid Cap Growth Index in all instances?

No.

13. Section II.B.3.e.(2) indicates a high correlation (0.85) to the Russell Mid Cap Growth Index for the three-year annualized period ending March 31, 2007. Is the high correlation standard a guideline or a mandate?

Firms submitting proposals must have their specific Mid Cap Growth Equity investment strategy satisfy the minimum qualification as specified in Section II. B. 3.

14. Please provide the detailed exposure reports at the GIC/Wrap issuer level and the individual securities level so that we may describe the process and key steps associated with the transition of existing stable value fund investments to our organization as requested in the Strategy Specific Questionnaire Item b.(19).

Upon award, DPA will work with the selected investment manager to develop a detailed transition strategy. For the purposes of the RFP, please provide a draft transition plan that assumes the underlying fixed income portfolios are liquid and wrap contracts are specific for the Savings Plus account.

15. Our firm, in its capacity as investment adviser, acts as a fiduciary as defined in ERISA for numerous clients. For purposes of clarification, we would expect DPA to allow us to utilize any exemptive relief available under ERISA for prohibited transactions to the same extent as if the Plan were subject to ERISA. Is this inconsistent with DPA's expectations related to Attachment 2, Exhibit A-1, Item 2? Please explain.

This is not inconsistent with DPA's expectations.

16. We would require the disclosure of information regarding the Plan to brokers, contract issuers, custodians, dealers, and various other third parties as reasonably necessary in the ordinary course of business. We would also provide Plan information when it is requested by regulators or when disclosure is otherwise required by law. Is this acceptable to the State in regard Attachment 2, Exhibit A-1, Item 20?

Yes, so long as the third parties to whom disclosure is made is subject to the same restrictions on additional disclosure as is the Contractor.

17. To the extent any California employment laws are applicable; we would request that our compliance with Federal EEO laws be considered compliance with California law as stated in Attachment 2, Exhibit C, Item 8, of the RFP. Please advise if this is not acceptable.

A firm awarded an agreement through this RFP process is required to comply with the Non-Discrimination Clause requirement as referenced in the RFP. This provision is based on State law and is required in every State contract.

18. Under our typical advisory agreements, we do not offer indemnification. We also have concerns about the absence of limits on our indemnification obligations when the State participates in and/or provides its own defense as well as the provision's standard of care and the scope of indemnified parties. What aspects of the indemnification clause are negotiable?

As stated in the RFP, the General Terms and Conditions and Special Terms and Conditions are non-negotiable.

19. We as a policy do not agree to pay contractor search/replacement fees and would only consider discussion of this matter if we were removed for cause. Are these termination provisions (Attachment 2, Exhibit D, Item 5) required under California law or are they negotiable? Other governmental authorities have granted us termination rights which require significantly less notice than 180 days.

The participant communication and contractor search/replacement costs referenced in the Termination Clause only apply should the Contractor exercise its termination rights. The 180-day notice period is based on the amount of time needed by DPA to notice participants and conduct a fund search/replacement.

20. Please provide additional details and examples of processing errors by the investment manager beyond trading errors and investment guideline issues as related to Attachment 2, Exhibit D, Item 8. Would DPA be agreeable to negotiating clarifying language that the manager would not be responsible to the extent a processing error by the investment manager occurs as a result of negligence, errors, and/or omissions of third parties?

As stated in the RFP, the Special Terms and Conditions are non-negotiable.

21. May the Notice of Intent to Bid and Proposal(s) be sent via overnight mail package?

Yes, as long as it is received on or before the scheduled due date and time as reference in Section III.A.

22. Section II.B.3.h. requires that the performance of the proposed strategy exceed the rate of returns of the Russell Mid Cap Growth Index and a peer group median of mid cap growth equity mutual fund managers for the three-year annualized period ending March 31, 2007. Our firm's strategy has not outperformed for the three-year annualized period; however, it has generated annualized excess returns of 924 basis points since its inception in 1999. Will you consider this product?

Firms submitting proposals must have the specific Mid Cap Growth Equity investment strategy satisfy all the criteria as specified in Section II.B.3.

23. Will the stable value assets be mapped in cash or in-kind?

DPA anticipates that the stable value assets will be mapped in cash.

24. What is the composition of the current stable value portfolio?

The current stable value fund is a separate account comprised of separate wrap contracts and commingled fixed income investments.

25. What is the current market to book ratio of the stable value portfolio?

The market to book value ratio as of 12/31/2006 was 99.15%.

26. Will the selected manager provide custody for the stable value securities?

See Attachment 2, Exhibit A, for scope of work requirements by vehicle type.

27. Will a stable value separate account be required to trade electronically via NSCC for daily purchases and redemptions?

See Attachment 2, Exhibit A-1, for scope of work requirements for separate accounts.

28. Can you provide the 2004/2005/2006 monthly cash flow data for the stable value fund (breaking out contributions, withdrawals, and net exchanges)?

Savings Plus operates in a daily trading environment. We are not able to provide a historical or projected ongoing cash flow. For separately managed accounts, DPA will work with the manager to establish proper liquidity buffers (allocation to cash).

29. Our firm's mid cap growth strategy has \$1.7 billion in assets under management as of 12/31/07 and 82% of the portfolio is invested in companies between \$1 and \$10 billion in market capitalization. Our SMID Growth strategy has \$1.9 billion in assets under management and 81% of the portfolio is invested in companies between \$1 and \$10 billion in market capitalization. Both strategies meet the RFP's definition of mid cap and collectively have assets under management of \$3.6 billion. Would DPA consider our total mid cap assets of \$3.6 to be sufficient in meeting the \$2.6 billion asset under management requirement?

No. Firms submitting proposals must have the specific Mid Cap Growth Equity investment strategy satisfy all the criteria as specified in Section II.B.3 of the RFP.

30. Our firm would propose a separate account vehicle which complies with the requirements of the State. As part of our portfolio construction process, we use commingled funds as building blocks for the overall stable value product and separate account. These commingled funds are managed by an entity which is owned by our parent company. The funds are market value commingled funds established specifically for use in our stable value portfolios to provide better diversification and have investment guidelines appropriate for stable value. Technically, our firm acts as a sub-adviser to these specific funds. Does the State foresee this as an impediment to qualifying as a respondent as specified in Section II.A.3?

No.

31. The issuers that offer the guarantee in our stable value separate account require a 90-day equity wash for transfers to a competing fund. A competing fund is defined as another stable value fund or fixed income fund with a duration less than 3 years. There are no other penalties or fees for transfers out of the fund. Does the State foresee this as an impediment to qualifying?

No. Savings Plus does offer a Bond Index and Active Bond Fund, both strategies are benchmarked against the Lehman Brothers Aggregate Bond Index. We do not view these as competing options.

32. Our firm does not maintain official statistics on recycled contents for all office locations worldwide. Does this restriction apply only to offices located in California? If certification requires statistics on all office locations, does the State require we certify a percentage rate of zero?

The Recycling Certification provision contained in the RFP (Attachment 2, Exhibit C, Item 7) inaccurately cited to certain provisions of the Public Contract Code. The correct statutory provisions are contained in Public Contract Code sections 12200 et seq.

33. Child Support Compliance Act: Is this provision limited to the State of California?

Please refer to the Child Support Compliance Act, which may be found in Public Contract Code section 7110.

34. Regarding Section II.B.1.d., we interpret this to include assets directly under stable value management as well as additional assets that are managed in a manner consistent with the stable value assets. Please comment on if this is the correct interpretation for this requirement.

This broad interpretation is not correct. Firms submitting proposals must have their proposed Stable Value investment strategy satisfy all the criteria in Section II.B.1.

35. Will DPA agree in the advisory contract for a separate account management to any limitation of liability provisions customary to this type of advisory relationship (e.g., adviser will not be liable for its reliance on instructions from authorized person of DPA). Of course, if afforded such provisions, we would include language in the advisory contract stating that the federal securities laws impose liability on persons who act in good faith and therefore any such limitation of liability would not constitute a waiver of any right DPA would have under those laws.

As stated in the RFP, the General Terms and Conditions and Special Terms and Conditions are non-negotiable.

36. Our firm's Mid Cap Growth equity strategy has \$2.2 billion in assets under management, slightly under the \$2.6 billion minimum stated in the RFP. Would DPA allow us to propose our Mid Cap Growth equity strategy given our successful track record?

Firms submitting proposals must have their proposed Mid Cap Growth Equity investment strategy satisfy all the criteria in Section II.B.3.

37. Page 4 of the RFP states that the Bond strategy portfolio should exhibit characteristics representative of the core opportunistic fixed income style, while the Peer Group indicated was the Core fixed income universe. Would you please clarify which product DPA is seeking—core fixed income and/or core plus fixed income?

DPA is seeking a core plus (opportunistic) fixed income strategy.

38. Given the Bond strategy mandate is for a DC plan, must the strategy have daily-valued mutual fund or is DPA open to a separate account?

As stated on page 3 of the RFP, DPA will consider institutionally managed investment vehicles including separate accounts, commingled (trust) funds, low cost retail mutual funds, and institutional mutual funds that can operate in a daily-valued recordkeeping environment.

39. Is it possible to receive historical monthly cash flows for the Stable Value fund? We would specifically like to review, as of 12/31/06, for the past five years, if available, contributions, withdrawals, transfers, other, and total cash flows.

See response to Question 28.

40. Are there any competing plans (i.e., 457 plan for state university employees), that are available to participants in DPA's Savings Plus?

Savings Plus currently has a limited number of active participants from the California State University system. California State University employees do have access to a 403(b) plan that is not administered by Savings Plus.

41. Are we correct in our interpretation that the Section II.A.5. specifically applies to the registered investment advisor that will contract with you for the investment management services described in the RFP rather than all entities in our global investment group worldwide? Also, is it acceptable to provide relevant disclosure on any significant litigation or enforcement actions, including market timing, with the submission of our response to the RFP?

This standard applies to all registered entities that reside under the proposer's registration. DPA will review the relevance of actions specific to the investment team proposing. Yes, you should provide relevant disclosures.

42. Our firm will vote proxies and affect corporate actions in accordance to its written policy in effect from time to time which will be provided to DPA upon request. We would like to confirm that our representation to the foregoing in lieu of Attachment 2, Exhibit A-1, Item 10 would be acceptable.

As stated in Section III.B of the RFP, Attachment 2, Exhibit A-1, are required activities for investment firms proposing a separate account vehicle.

43. Our firm complies with the Title VII of the Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act, the Pregnancy Discrimination Act, the Rehabilitation Act, the American with Disabilities Act, any other federal law protecting against discrimination and harassment, and the corresponding state and local statutes. We would like to confirm that our representation to the foregoing in lieu of the requirements specified in Attachment 2, Exhibit C, Item 8 and Attachment 2, Exhibit D, Item 10 would be acceptable.

As stated in the RFP, the General Terms and Conditions and Special Terms and Conditions are non-negotiable. These provisions are based on State law and are required in every State contract.

44. We would like to confirm whether the references to the California antitrust statutes, Attachment II, Exhibit C, Item 11, are applicable to a Contractor providing investment management services.

The references to California antitrust statutes, Attachment II, Exhibit C, Item 11, are required in every State contract.

45. We request that the provision on indemnification in Attachment 2, Exhibit D, Item 1 ("Special Terms and Conditions") be revised to limit the Contractor's indemnification obligations to losses, damages or claims resulting from the Contractor's negligence or willful or reckless misconduct.

As stated in the RFP, the Special Terms and Conditions are non-negotiable.

46. Our firm is a drug- and alcohol-free workplace. Employees are prohibited from the unlawful use, possession, sale, or transfer of drugs or narcotics. Employees of our firm shall not possess or consume alcoholic beverages while engaged in business of our firm, either in the workplace or elsewhere, so as to impair their ability to perform their duties or otherwise adversely impact the business of our firm. Our firm has implemented internal policies to maintain and support a drug- and alcohol-free workplace. We would like to confirm that our representation to the foregoing in lieu of the requirements as specified in Attachment 2, Exhibit D, Item 11, would be acceptable.

*As stated in the RFP, the Special Terms and Conditions are non-negotiable.
Every person or organization awarded a contract must certify that it has complied with Attachment 2, Exhibit D, Item 11.*

47. Our firm maintains Worker's Compensation Insurance as required by California Law for each of the locations of our firm and its affiliates in the State of California. We would like to confirm that our representation to the foregoing in lieu of the requirements as specified in Attachment 2, Exhibit D, Item 13, would be acceptable.

As stated in the RFP, the Special Terms and Conditions are non-negotiable.

48. We would like to confirm whether the provisions Attachment 2, Exhibit E, Item 1, prohibiting former state employees from contracting with state agencies impose a similar prohibition on a Contractor that hires a former state employee.

Please refer to the Public Contract Code sections referenced in Attachment 2, Exhibit E, Item 1.

49. Could you clarify the meaning of "investment management - only activities" as contained in Section II.A.5?

Investment management – only activities excludes claims/lawsuits/sanctions that arise from non-investment related activities under the same corporate parent. A common example is claims against recordkeeping units of mutual fund companies.

50. Could you confirm that Section II.A.5.b. does not include any meritless claims to which a contractor might be subject?

The definition associated with the minimum qualification as specified in Section II.A.5. are defined in Section II.A.5.a and b. DPA will review claims individually.

51. Could you confirm that the Minimum Qualification Requirement in Section II.A.5.b. does not include any claims against a contractor that have been determined not to required financial statement disclosure in accordance with Statement of Financial Accounting Standards No. 5?

See answer to question 50.

52. Could you confirm that the organization chart noted on the General Company Questionnaire, Item 1.b.(3) is only limited to parent-subsidary and need not contain affiliate?

Correct.

53. Could you confirm that the indemnity provision contained in Attachment 2, Exhibit D, Item 1, does not extent to investment losses provided the contractor has otherwise complied with the contract?

The indemnity provision extends to all claims and losses accruing or resulting to any and all contractors, subcontractors, suppliers, laborers, and any other person, firm, or corporation furnishing or supplying work services, materials or supplies in connection with the performance of this Agreement, and from any and all claims and losses accruing or resulting to any person, firm or corporation, who may be injured or damaged by Contractor in the performance of this Agreement.

54. How can a Contractor determine entities which have contracted with the State Personnel Board, any county, city, district or other political subdivisions of the State or with State agencies for purposes of ensuring proper disclosure in accordance with the State Personnel Board Conflict of Interest Code as applicable to a Consultant?

Agreements awarded through this RFP process will be between the Contractor and the Department of Personnel Administration and not the State Personnel Board. The State Personnel Board is a separate state agency.

55. While we manage approximately \$3.8 billion across various Core/Core Plus Fixed Income mutual funds, the specific mutual fund we would propose has approximately \$300 million in assets. Would this disqualify us?

Firms submitting proposals must have their proposed Bond (actively managed) investment strategy satisfy all the criteria in Section II.B.2.

56. With respect to Section I.A.1. and Section II.B.1.j and the return comparison between the proposed Stable Value option and the benchmark of the Lehman Brother 1 to 3 Year Government Bond Index, what data should be used for the comparison? Specifically, if the proposed Stable Value option funding vehicle has both a “wrapped” or book value, and “unwrapped” or market value returns, which should be used for comparison? Similarly, should the benchmark returns be on the “wrapped” (book value) or “unwrapped” (market value) basis?

The returns posted in the GIMD™ database should be the ‘wrapped’ returns and the benchmark returns will be ‘market’ returns.

57. With respect to Section III.B. how is the proportionate share of communication costs calculated? Specifically, is the proportion based on assets in the proposed vehicle compared to total assets?

Refer to Attachment 2, Exhibit A, for the formula for deriving communication costs.